

4 common myths about retirement

BY LAURA SCHARR-BYKOWSKY

Over the next two decades, an estimated 70 million Baby Boomers will retire. Most are not financially prepared for this transition.

According to a 2008 study by the Employee Benefit Research Institute, more than 75 percent of workers 55 or older have accumulated less than \$250,000 in savings and investments (excluding their homes and defined benefit programs).

Economic uncertainty has many pre-retirees concerned about their financial future. It is time to start planning now to realize happy and fulfilling golden years. Consider these common myths about retirement funding.

Myth 1: I'll just rely on Social Security and/or my pension to provide income.

Many Americans incorrectly believe that Social Security will replace their income. But for the average worker, Social Security actually replaces only about 44 percent of pre-retirement income, and this is projected to dwindle to 29 percent over the next 20 years. And the ratio is far lower for higher-income earners. More important, Social Security and most pensions do not adjust adequately for inflation, diminishing purchasing power over time.

Myth 2: Once I reach 65, I can go on Medicare, and I won't have any out-of-pocket medical expenses.

Fidelity Investments estimates that a couple retiring at age 65 this year will need at least \$195,000 in extra savings to

satisfy the uncovered costs of health care in retirement.

In addition, health care inflation is running much higher than overall inflation, which can put an unexpected dent in retirement income. Another concern is that Medicare generally does not cover long-term care expenses. Retirees will have to generate additional savings to cover this expense or rely on family members to provide care.

Myth 3: I already max out my 401K plan, so I should have no problem meeting my retirement needs.

It depends on how much income you need. Most people will require additional taxable savings for retirement over and above their tax-deferred accounts and the value of their homes. Their investment allocation should be set to deliver a rate of return that is consistent with their attitude toward risk but to allow for sufficient growth.

Myth 4: If I save and invest 10 percent of my salary, I will have enough for retirement.

Once again, each person is unique. It depends on lifestyle and the age at which you began saving. Individuals should be saving at least 10 percent of their salary but will need much more than that if they are just beginning to save in their 40s or 50s. The amount of annual savings you will need increases exponentially as the years pass.

Improve your chances for achieving adequate retirement funds

Start saving now. Max out your 401K/403B, or other tax-deferred accounts at work. Maximize savings and invest additional after-tax dollars. Invest in a traditional IRA or a Roth IRA, if you qualify. Develop a target asset allocation that diversifies funds across several asset classes and rebalance it at least once a year.

Make retirement a priority. Visualize how you will spend your retirement. Once you visualize living part of the year in Tuscany or lazy days fishing on the lake, it will provide incentive to work harder now to reach that dream. Make sure to prioritize retirement savings over college savings. You can take out a loan for college, but you can't take a loan out for retirement.

Consider delaying retirement. Baby boomers are healthier, more active, and will live longer than their parents. A large percentage of Boomers will work into their late 60s or early 70s, either because they love what they do or because they have no choice due to a lack of sufficient savings.

Delaying retirement allows the worker to supplement his or her income and postpone beginning Social Security, resulting in a larger check down the road. The benefit increases 8 percent each year you delay up to age 70. Waiting until 70 nearly doubles your benefit.

Maintain a healthy withdrawal rate during retirement. Research indicates that a safe withdrawal rate is between 4 percent and 4.5 percent of your portfolio. You risk outliving your money if you get too aggressive with your withdrawals.

In order to realize a comfortable, secure, and rewarding retirement, it is important to discuss long-range goals with your financial planner and develop a saving strategy. **LMC-NEC**

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